

Message Text

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ACTION EB-07

INFO OCT-01 NEA-10 ISO-00 AGR-10 H-02 L-03 AID-05 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04

OPIC-06 SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 ABF-01

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R 271327Z JUN 75

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 9518

UNCLAS NEW DELHI 8558

PASS AGRICULTURE

E.O. 11652: N/A

TAGS: ETRD, EAGR

SUBJECT: INDIAN SUGAR INDUSTRY

REF: STATE 141876

1. FOLLOWING IN THE ORDER IN WHICH THEY ARE ASKED ARE ANSWERS
TO QUESTIONS POSED REFTEL:

(A) THE AVERAGE EX-FACTORY PRICE FOR LEVY SUGAR (65 PERCENT
OF TOTAL PRODUCTION) AND FREE SALE SUGAR (35 PERCENT OF TOTAL
PRODUCTION) IS 9 AND 16 U.S. CENTS PER POUND RESPECTIVELY. THE
PRESENT WEIGHTED AVERAG EX-FACTORY PRICE FOR TOTAL SUGAR PRO-
DUCTION (BOTH LEVY AND FREE) WORKS OUT TO 11.4 U.S. CENTS PER
POUND. NO RELIABLE CURRENT COST OF PRODUCTION FIGURE FOR RAW
SUGAR IS AVAILABLE.

(B) THE CURRENT OPEN MARKET RETAIL PRICE OF SUGAR IN INDIA
RANGES BETWN 24.4 TO 26.5 U.S. CENTS PER POUND. THE RETAIL
PRICE OF SUGAR DISTRIBUTED THROUGH THE FAIR PRICE SHOPS IN
RATIONED QUANTITIES IS CURRNTLY ABOUT 12 U.S. CENTS PER POUND.

(D) THE UNIT VALUE FOR SUGAR EXPORTED IN CY 1974 WORKS OUT
TO 24 U.S. CENTS PER POUND.

(D) ACCORDING TO THE GOI'S FIFTH FIVE YEAR PLAN (APRIL 1,
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1974 TO MARCH 1, 1979), WHICH IS STILL TO BE FINALIZED, THE

PRODUCTION TARGET FOR SUGAR IS 5.7 MILLION TONS. GIVEN THIS
YARS RECORD PRODUCTION OF AN ESTIMATED 4.8 MILLION TONS AND
ASSUMING AN EQUAL ANNUAL INCREASE FOR THE NEXT FOUR YEARS,
SUGAR PRODUCTION WOULD BE AS FOLLOWS:

1975-76	5.02 MILLION TONS
1976-77	5.25 MILLION TONS
1977-78	5.47 MILLION TONS
1978-79	5.70 MILLION TONS

THE ABOVE LEVELS OF PRODUCTION MAY PROVE TO BE OPTIMISTIC
ALTHOUGH MINISTRY OF AGRICULTURE OFFICIALS FEEL CONFIDENT THAT
SUCH LEVELS WILL BE ACHIEVED. THIS POSITIVE OUTLOOK IS
UNDOUBTEDLY BUOYED BY THIS YEAR'S RECORD PRODUCTION AND THE
SUCCESS IN MEETING THE SUGAR PRODUCTION TARGETS INCORPORATED IN
THREE OUT OF FOUR PREVIOUS FIVE YEAR PLANS.

NO SEPARATE EXPORT TARGETS FOR SUGAR HAVE BEEN SET. IN
CY 1974, INDIA EXPORTED A RECORD 487,000 METRIC TONS. THROUGH
THE MIDDLE OF JUNE, INDIA HAS EXPORTED APPROXIMATELY 415,000
TONS WITH TOTAL EXPORTS FOR THE YEAR CURRENTLY ESTIMATED BY THE
AG ATTACHE AT ROUGHLY 800,000 TONS. SUGAR EXPORTS HAVE BECOME
ONE OF INDIA'S LEADING FOREIGN EXCHANGE EARNERS. GIVEN THE
NEED TO INCREASE FOREIGN EXCHANGE EARNINGS TO PAY FOR IMPORTS
OF PETROLEUM, FOODGRAINS, FERTILIZER, AND OTHER ESSENTIAL
GOODS, AND ASSUMING CONTINUED RENUMERATIVE WORLD SUGAR PRICES,
WE ANTICIPATE EVEN GREATER EFFORTS BY INDIA IN THE FUTURE TO
MAXIMIZE SUGAR EXPORTS. EXPORTS IN ANY SINGLE YEAR WILL
DEPEND PRIMARILY ON DOMESTIC PRODUCTION AND WORLD MARKET
CONDITIONS. ASSUMING THE ACHIEVEMENT OF THE PRODUCTION TARGET
OF 5.7 MILLION TONS, INDIA'S SUGAR EXPORT AVAILABILITY FOUR
YEARS HENCE WOULD BE OVER ONE MILLION TONS ASSUMING NO CHANGE
IN STOCK LEVELS.

(E) THE INSTALLED ANNUAL CAPACITY OF THE SUGAR INDUSTRY

INCREASED FROM 4.14 MILLION TONS DURING THE 1972-73 SEASON TO
4.31 MILLION TONS DURING THE 1973-74 SASON. ACTUAL PRODUCTION
AT TIMES EXCEEDS ANNUAL CAPCITY DUE TO THE OPERATION OF THE
SUGAR MILLS BEYOND THE NORMAL CRUSHING SEASON.

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THE DRAFT FIFTH FIVE YEAR PLAN (1974-75 TO 1978-79) HAS SET
A TARGET OF ACHIEVING 6.0 MILLION TONS OF INSTALLED PRODUCTION
CAPACITY IN ORDER TO ATTAIN AN ANNUAL PRODUCTION OF 5.7 MILLION
TONS. IT WAS, THEREFORE, DECIDED TO RAISE THE INCENSD CAPACITY
OF THE SUGAR INDUSTRY FROM 5.55 MILLION TONS AT THE END OF
OCTOBER 1973 TO 7.0 MILLION TONS BY THE END OF THE FIFTH FIVE
YEAR PLAN. TO ACHIEVE THIS TARGET, LICENSES HAVE SO FAR BEEN
ISSUED FOR 54 NEW SUGAR FACTORIES AND EXPANSION IN 19 EXISTING

UNITS FOR A TOTAL ADDITIONAL CAPACITY OF 1.2 MILLION TONS. APPLICATIONS INVOLVING ANOTHER 70,000 TONS CAPACITY HAVE ALSO BEEN APPROVED BY THE GOVERNMENT FOR ISSUANCE OF LICENSES. IN ADDITION TO THIS, APPLICATIONS INVOLVING A CAPACITY OF 244,000 TONS FOR THE ESTABLISHMENT OF NEW SUGAR FACTORIES AND EXPANSION IN THE EXISTING UNITS ARE UNDER CONSIDRATION. THE LICENSING TARGET OF 7.0 MILLION TONS OF CAPACITY HAS THUS BEEN COMPLETED IN THE FIRST YEAR OF THE PLAN.

(F) DURING THE TEN YEAR PERIOD ENDING IN 1974-75, DOMESTIC CONSUMPTION IS ESTIMATED TO HAVE INCREASED AT AN ANNUAL COMPOUND RATE OF 3.8 PERCENT.

(G) IN THE SUMMER OF 1974, INDIA ENTERED INTO A LONG-TERM CONTRACT WITH IRAN FOR THE SUPPLY OF 500,000 TONS OF SUGAR TO BE DELIVERED THROUGH MARCH 1977. AS OF JUNE 3, 1975, ABOUT HALF OF THE QUANTITY UNDER THIS AGREEMENT HAS BEEN EXPORTED.

(H) THE PRODUCERS AND CONSUMERS OF MILL SUGAR IN INDIA HAVE BEEN SUBJECTED TO A SYSTEM OF DUAL PRICES SINCE THE INTRODUCTION OF A POLICY OF PARTIAL DECONTROL OF SUGAR IN 1967-68. UNDER THIS POLICY, THE GOVERNMENT OF INDIA TAKES OVER A MAJOR PORTION (CURRENTLY 65 PERCENT) OF THE PRODUCTION OF THE SUGAR MILLS

AT FIXED RATES AND SELLS THE SAME TO CONSUMERS AT CONTROLLED PRICES THROUGH THE FAIR PRICE SHOPS. CONTROLLED PRICES ARE APPROXIMATELY 50 PERCENT LOWER THAN FREE MARKET PRICES ALTHOUGH NO GOVERNMENT SUBSIDY IS INVOLVED DUE TO THE LOW PRICES THE GOVERNMENT PAYS THE SUGAR MILLS. THE MILLS ARE ALLOWED TO SELL THE REMAINING PORTION (35 PERCENT) OF THEIR PRODUCTION AT WHATEVER PRICE THEY CAN OBTAIN AND THERE IS NO PRICE CONTROL AT THE RETAIL OUTLETS ON THE SALE OF THIS PORTION OF THE MILLS' PRODUCTION. ALL EXPORTS ARE HANDLED BY THE STATE TRADING CORPORATION OF INDIA (A GOVERNMENT OF INDIA AGENCY).

2. FOR MORE DETAILS ON THE ABOVE QUESTIONS, PLEASE REFER TO UNCLASSIFIED

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IN-5023, DATD MAY 5, 1975.

3. NOTE: ALL CONVERSIONS HAVE BEEN MADE AT RUPEES 8 EQUAL ONE DOLLAR. SAXBE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: SUGAR, TRADE LAW, US CONGRESSIONAL HEARINGS, LEGISLATIVE BILLS
Control Number: n/a
Copy: SINGLE
Draft Date: 27 JUN 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975NEWDE08558
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750224-0811
From: NEW DELHI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t1975069/aaaaaiaa.tel
Line Count: 158
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 75 STATE 141876
Review Action: RELEASED, APPROVED
Review Authority: greeneet
Review Comment: n/a
Review Content Flags:
Review Date: 20 FEB 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <20 FEB 2003 by PhilliR0>; APPROVED <21 JAN 2004 by greeneet>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: INDIAN SUGAR INDUSTRY
TAGS: ETRD, EAGR
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006